

Schedule II--Sheet 2

AT&T CORP.  
AND ITS CONSOLIDATED SUBSIDIARIES

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS  
(Millions of Dollars)

COL. A	COL. B	COL. C	COL. D	COL. E
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions (a)	Balance at End of Period
Year 1995				
Allowances for doubtful accounts (b) .....	\$ 611	\$1,613	\$1,392	\$ 832
Reserves related to business restructuring, including force and facility consolidation (c) .....	\$ 699	\$1,712	\$ 319	\$2,092
Deferred tax asset valuation allowance ...	\$ 36	\$ 109	\$ 16	\$ 129

- (a) Amounts written off as uncollectible, net of recoveries.
- (b) Includes allowances for doubtful accounts on long-term receivables of \$49 \$52 and \$35 in 1997, 1996 and 1995, respectively (included in long-term receivables in the Consolidated Balance Sheets).
- (c) Included primarily in other current liabilities and in other long-term liabilities and deferred credits in the Consolidated Balance Sheets.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AT&T Corp.

By: M. J. Wasser  
Vice President - Law and Secretary

March 26, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

### Principal Executive Officers:

C. Michael Armstrong	Chairman of the Board and Chief Executive Officer
John Zeglis	President and Director

### Principal Financial Officer:

Daniel E. Somers	Senior Executive Vice President and Chief Financial Officer
------------------	--

### Principal Accounting Officer:

Maureen B. Tart	Vice President and Controller
-----------------	----------------------------------

### Directors:

Kenneth T. Derr  
M. Kathryn Eickhoff  
Walter Y. Elisha  
George M. C. Fisher  
Donald V. Fites  
Ralph S. Larsen  
Donald F. McHenry  
Michael I. Sovern  
Thomas H. Wyman

By M. J. Wasser  
(attorney-in-fact)\*

March 26, 1998





**Teleport Communications Group**

**September 15, 1997**

**Contact:**

**Donna Suky, Media  
(718) 355-2072**

**Nancy Huson, Investors  
(908) 392-2154**

**TCG BUNDLES LONG DISTANCE SERVICE FOR  
ITS LOCAL TELEPHONE CUSTOMERS TO  
SATISFY DEMAND FOR ALL SERVICE/ALL  
DISTANCE CARRIER**

**TCG offers "one-stop shopping" for local, Internet and  
long distance service**

***FOR IMMEDIATE RELEASE***

**New York, NY --** Teleport Communications Group (TCG//NASDAQ: TCGI), the nation's largest, facilities-based, competitive local phone company, today announced the availability of its new long distance service, PrimeDistance, that will be packaged with TCG's telecommunications service offerings making TCG an all service/all distance carrier.

"TCG's latest offering is in response to increasing demands from businesses for a single supplier of a complete range of local, Internet and long distance services on a national basis," said Bob Annunziata, Chairman, President and CEO of TCG. "TCG can now provide volume discounts on high-quality local, regional toll, national and international long distance and 800 service, all on one bill."

Annunziata noted that PrimeDistance will be available to TCG's local telephone service customers initially. PrimeDistance is TCG's first step into the long distance market -- a market worth approximately \$50 billion nationally.

**WHAT'S NEW**

**ABOUT TCG**

**INVESTOR  
RELATIONS**

**MEDIA**

**The Public Affairs Team**

**Current Press Releases**

**Press Release Archives**

**REGULATORY  
ISSUES**

**PRODUCTS &  
SERVICES**

**AREAS WE  
SERVE**

**CONTACT US**

**CAREER  
OPPORTUNITIES**

**HOME**

"If businesses are satisfied buying a-la-carte services, TCG will, of course, continue to market its broad suite of services on that basis," said Annunziata. "TCG fully understands the convenience and pricing benefits that drive one-stop shopping requests from many of its customers, however."

Stressing the company's overall commitment to customer service, Annunziata said: "TCG is listening to its customers and quickly responding to the needs of a dynamic marketplace. It's what we've always done; it's what we do best."

Annunziata also noted that through substantial expansion of its own fiber-optic networks, TCG will be able to use its own network for long distance traffic.

For example, TCG's Northeast Corridor network will enable TCG to keep a greater portion of its PrimeDistance traffic on its own facilities. TCG's Northeast Corridor will connect southern New Hampshire to northern Virginia. This corridor is generally regarded as holding the highest concentration of telecommunications traffic in the nation.

PrimeDistance is available to TCG customers in the nation's top 24 markets: New York, New Jersey, Boston, Marlboro, Providence, Baltimore, Cleveland, Chicago, Hartford, Dallas, Detroit, Houston, Los Angeles, Pittsburgh, San Diego, San Francisco, Seattle, South Florida, Philadelphia, Indianapolis, Milwaukee, Denver, Phoenix and Washington D.C.

Typical PrimeDistance features will include: national and 800 services, international long distance, directory assistance, complete operator services and tailored billing to reflect actual minutes of use -- the more minutes of use, the more you save. TCG is the nation's largest provider of competitive local telecommunications, long distance and broadband wireless services for information-intensive businesses in 57 major markets. TCG is currently in the process of developing eight new networks.

Copyright ©1997-8 Teleport Communications Group Inc.

"There are many developing solutions for IP telephony. We should look at what's proposed, what's in development, and what the implications are for regulating this in the larger international environment. . . We don't know what kind of services can be offered based on these evolving platforms."

America Online, Inc., applauded the FCC's confirmation of the distinction between telecom and information services. But it cautioned that classifying the new IP-based telephony services as telecom services "could slow innovation in those new services."

Internet Access Coalition co-Chairman Rhett Dawson urged "caution. The competitive Internet industry must not be threatened by regulations designed for a noncompetitive marketplace."

The FCC's report to Congress didn't initially impress Jeff Pulver, president of **pulver.com, Inc.** A long-time IP industry advocate who in a recent letter to Vice President Al Gore Jr. recommended that the government create a separate commission to consider Internet regulation issues (*TR*, April 13), Mr. Pulver told *TR* in an April 13 interview that he was generally disappointed by the report.

FCC Chairman "Kennard comes across as a telecom lobbyist," he said. The FCC, in Mr. Pulver's opinion, doesn't understand the IP and, therefore, offered "stupid regulation" for an industry it does not comprehend.

"What I'm looking for is intelligent regulation. It's clear...that the same cannot be said for the FCC," he said. He said he would continue to try to get Mr. Gore's attention on the issue, but he wouldn't say what his next move would be in that regard.

Mr. Pulver's letter to the vice president also was signed by the heads of IDT Corp., VocalTec Communications, and ITXC, Inc. It called for a commission to study IP technology and suggest "appropriate" regulation for the emerging industry.

In an April 15 news release from the VON Coalition, however, Mr. Pulver said the coalition, which he founded, was "pleased that the Commission did not take a premature position on the legal classification of Internet voice applications. It is important to the economy to keep the U.S. in the lead in technology."

"The FCC, as well as the Clinton/Gore administration and many members of Congress, have recognized the value of the Internet and these applications in maintaining this U.S. leadership," he said.

The VON Coalition was founded two years ago as an advocate against efforts to regulate Internet services (*TR*,

March 25, 1996). The coalition's board includes representatives of Cisco Systems, Inc., Dialogic Corp., Intel Corp., Lucent Technologies, Inc., Microsoft Corp., and VocalTec Communications, Inc. *TR*

## Sprint: MCI-WorldCom Deal May Spark Internet Consolidation

If regulators allow MCI Communications Corp. and WorldCom, Inc., to consummate their planned merger without divesting one of their Internet backbone holdings, other carriers in the Internet backbone business likely would have to consider merging as well, according to Sprint Corp. officials.

At a Washington press briefing last week, John Hoffman, senior vice president-external affairs, said the company didn't oppose the proposed merger of MCI and WorldCom outright. But he aired concerns about the prospect of the merged company's controlling about 60% of domestic Internet backbone traffic (*TR*, Jan. 12 and March 16). Sprint now is one of about "five or six players" with approximately equal market shares in the Internet backbone business, Mr. Hoffman said.

Allowing the combination of the Internet backbone assets of MCI and WorldCom would "force us to do something," said Mr. Hoffman. "Either we'll have to get bigger or get smaller. . . We'll probably get bigger." If regulators "don't like that prospect" of increased consolidation, "they'd better stop it now," he said.

The press briefing was held as Sprint executives met in Washington with FCC Commissioners and their staffs to discuss the status of competition in local exchange markets.

Richard Devlin, Sprint's general counsel and executive VP-external affairs, said the company told the FCC that it was "doing a good job" in evaluating Bell companies' bids to provide in-region interLATA (local access and transport area) services. Despite the political pressure to approve a Bell company application to provide the services, the FCC "has to hang in and do the right thing," he said.

Mr. Devlin added that Sprint would announce "relatively shortly" its plans for launching competitive local exchange carrier (CLEC) operations targeting markets served by other incumbent local carriers. (Sprint owns and operates incumbent telephone companies in 19 states.) Regarding its CLEC venture, Mr. Devlin said only that Sprint was considering "alternative plans that could provide an economic solution" to entering local exchange markets while "differentiating" it from other carriers. *TR*



## **News Release**

---

Editor's note: Download our [online brochure](#).

**FOR RELEASE TUESDAY, MARCH 3, 1998**

# **AT&T proposes bold new initiatives to eradicate slamming**

**Recommends tough, uniform anti-slamming measures be implemented nationwide**

NEW YORK -- AT&T today announced it has undertaken bold new initiatives to eradicate "slamming," the fraudulent practice of switching consumers from their preferred communications company without their consent.

"We want to eliminate slamming from our industry and are taking the steps today to do so," said C. Michael Armstrong, AT&T's chairman and CEO. "We will work to preserve choice by doing what is right for consumers.

"As the industry leader, we have zero tolerance for slamming," said Armstrong. "That is why we are also announcing today three tough new measures to ensure that our own house is in order."

- AT&T will voluntarily and unilaterally suspend the use of outside sales agents for consumer marketing efforts at local community events. AT&T has discovered that these vendors generate an unacceptable level of complaints. The company will not resume use of these vendors until we are comfortable that they can meet AT&T's zero tolerance policy toward slamming.
- AT&T has established a slamming resolution center 1-800-538-5345 to provide dedicated service representatives 24-hours a day, seven days a week to resolve any consumer slamming complaints involving AT&T. The center is committed to resolve most consumer slamming inquiries on the first call and any that require further investigation within three business days. The center's capabilities will be expanded to handle business customer slamming inquiries on April 1.
- AT&T will charge companies that resell our network facilities for the cost of handling each valid customer slamming complaint they cause. AT&T will also step up its monitoring of those companies' marketing practices to ensure that they are not misrepresenting themselves as AT&T.

"These extra steps, which go above and beyond current industry practices, will give consumers an added level of protection. We believe our entire industry should take this approach as well," Armstrong said.

Public policy makers in Congress and in the states have been increasingly concerned about slamming. AT&T hopes its actions today will be constructive as Congress continues to address this issue. That's why AT&T is calling on the FCC to use the authority Congress gave it in the 1996 Telecommunications Act to put in place the following industry-wide safeguards:

- The requirement that all changes in local, local toll, and long-distance service for residential customers be verified by an independent third party before they can be processed. This verification now occurs only when communications companies call customers to solicit their business. AT&T is proposing that verification also take place when customers themselves initiate the call, submit a signed form requesting a change in service, or agree to have their service switched while attending a local event in their community. AT&T will begin to develop the systems and training necessary to implement third-party verification on all residential carrier changes, following FCC adoption of nationwide rules.
- The implementation of stricter anti-slamming rules for the communications industry, including rules involving compensation to companies whose customers have been slammed. We propose a stiff carrier-to-carrier penalty of \$1,000 per valid slamming incident.
- The tightening of FCC rules on third party verification to prevent unscrupulous carriers from using scripts that mislead customers as to the identity of the carrier actually soliciting their business.
- The elimination of local telephone company control over the processing of changes to local, local toll, and long-distance communications services. This could be accomplished by setting up an independent company to handle such changes. This measure will take service change activities out of the hands of the local telephone companies, which have a vested interest in maintaining their monopoly position.

Since the early 1990s, AT&T has been in the forefront in condemning slamming and finding ways to eliminate this industry problem. Based on the most recent FCC studies, the company's performance is the best in the industry. AT&T has also coordinated several consumer education campaigns on slamming over the last decade that has reached consumers in eight languages.

**Editor's note:** AT&T Chairman and CEO C. Michael Armstrong will hold an audio news briefing at 11:00 a.m. EST today. Reporters in the United States wanting to join the teleconference can call 1-800-260-0718. Beginning at 1:30 p.m. EST today, a rebroadcast of the audio news briefing will be repeated for 48 hours at 1-800-475-6701, access code 381490.

**For more information, reporters may contact:**

Karyn Vaughn-Fritz  
908-221-7974  
[kvaughn@att.com](mailto:kvaughn@att.com)

Ruthlyn Newell  
908-221-2737  
[ruthlyn@att.com](mailto:ruthlyn@att.com)

**For information about services AT&T offers, customers should visit:**

[AT&T Business Services](#)  
[AT&T PrePaid Card Center](#)  
[AT&T Online Consumer Catalog](#)  
[Telecommunications and Public Policy](#)

**KEYWORDS:** competition, long-distance, fcc, telecommunications\_act, consent, verification, fraud

---

[AT&T News Online](#) | [Press Archive](#) | [AT&T Newsroom](#) | [Search Press Archive](#) | [Customer Service](#) | [FAQs](#)  
*AT&T News Online Section Editor / [Rita.T.Ullrich@att.com](mailto:Rita.T.Ullrich@att.com)*

---



• ( AT&T HOME ) •• ( HELP • SEARCH ) •• ( WRITE TO US ) •• ( AT&T SERVICES ) •

Terms and conditions.

Copyright © 1998 AT&T. All rights reserved.



**Commercial Impact Uncertain****FRENCH SPACE FIRMS TO FORM JOINT VENTURE UNDER THOMSON RESTRUCTURING PLAN**

French govt. Mon. proposed restructuring plan for state-owned defense electronics company Thomson CSF that would result in new entity combining Thomson, Alcatel Espace & Defense and Aerospatiale's satellite manufacturing business. Joint venture would pursue military and commercial contracts, Alcatel spokesman in Paris said Tues., but precise impact of transaction on commercial markets won't be known until after new year. He said govt. and Thomson will retain 30-35% of new company, Alcatel about 20%, Aerospatiale about 10%, and public markets remaining 30-35%.

Aerospatiale spokeswoman, speaking Tues. from Les Mureaux hq, said govt. outlined terms of deal, but industry still needs to work out details. "The next step will be for the companies to negotiate the industrial setup." She said companies need to determine value of each other's contributions. "The government has announced what it wants to do, now it's a matter of resolving the business issues," she said. Matra Marconi also had bid to be partner of restructured Thomson. With Alcatel joining up with Matra rival Aerospatiale, observers say Matra could be forced to go outside Europe (possibly to Loral) for satellite payloads.

Alcatel will be free to choose contractors besides Aerospatiale for satellites, Alcatel spokesman said. "This is not an exclusive partnership," he said. Alcatel constructs satellite payloads, while Aerospatiale builds satellite buses at its facility in Cannes and Matra in Toulouse. Alcatel is expected to be named prime contractor in SkyBridge project, but spokesman said that doesn't mean Aerospatiale will be selected automatically to build constellation. Loral, which manufactures spacecraft in Cal., also is investor and partner in SkyBridge project.

New joint venture, which hasn't been named, will result in stronger Thomson, as well as stronger partners, Alcatel spokesman said, especially for defense applications. Commercial telecom activities and potential new business "needs to be evaluated," he said. "It's premature to say how this will work out." Joint venture would have advantage of combining Thomson's ground station capabilities, Alcatel's payload expertise and Aerospatiale's Eurobus spacecraft in one company, Aerospatiale spokeswoman said. "The objective is to make the companies more competitive." Source in French govt. said decision was based more on military needs than commercial considerations. "The [Socialist] government thinks the military is more important than the commercial sector," he said.

**Ameritech Profits Rise****SPRINT PROFITS FALL 32% AS GLOBAL ONE AND PCS COSTS CONTINUE TO EXPAND**

Sprint 3rd-quarter profits dropped 32% as share of losses from Global One joint venture and PCS partnership expanded significantly, offsetting increased long distance volume and local access growth, company said Tues. Sprint management also disclosed wide-scale review of Global One operations, with partners Deutsche Telekom and France Télécom, which executives said should improve operating expenses. Sprint also said it halted "active marketing" of competitive LEC (CLEC) services in Cal. until regulatory issues are clarified. Ameritech said profits rose sharply on "vigorous" customer demand and double-digit increases in cellular, paging, access min. of use.

Sprint income plunged to \$211.7 million (49¢ per share) from \$312.4 million (72¢) year earlier, with Global One and PCS losses increasing to \$227.9 million (-35¢) from \$71.8 million (-10¢). Losses from other new businesses also hurt profits, company said. Wall St. analysts had expected Sprint to hit 51¢-per-share mark for quarter, based on First Call consensus. Revenue increased 7.9% to \$3.79 billion from \$3.52 billion. CFO Arthur Krause said Global One losses are expected to continue for up to 18 months. Current review, he said, "will result in infrastructure improvements and lower operating costs." Unit had \$280 million in revenue in quarter but "bottom line progress fell below expectations," he said. Losses increased to \$41 million from \$24 million last year.

Building nationwide PCS network remains on schedule, Krause said, with first phase of network -- covering 65 markets -- scheduled for completion by year-end. Costs to acquire subscribers and revenue per subscriber "were within our range of expectations," he said, but he reserved further comment until after 4th quarter, when demand increases. Build-out costs also "met expectation," he said. Share of losses was \$187 million vs. \$136 million in 2nd quarter this year as costs to acquire customers and expand coverage area increased. "We will see another significant increase... in dilution from PCS in the 4th quarter," he said.

Core businesses improved, with long distance call volumes increasing 14%, revenue 8.1% and access lines 5.6% to 7.4 million, company said. Long distance revenue reached \$2.25 billion from \$2.08 billion as residential, small

and large business segments posted "outstanding performance" in quarter. Gary Forsee, pres., Long Distance unit, said some growth in international traffic reflected end of Fridays Free promotion in some markets, although program remains popular for many U.S. companies. Data traffic increased 6% from last year and company is on track to have 80% of traffic on synchronous optical network by year-end.

Local unit revenues were up 4.2% to \$1.34 billion as access lines and new vertical network service revenue increased. Mike Fuller, pres., local unit, said revenue from enhanced services, such as caller ID, jumped 25% from last year, and access min. of use rose 7%. FCC access reform order issued July 1 cut \$8 million from local unit revenues in quarter. Toll revenue fell \$17 million in year, reflecting \$15-million reduction from shutdown of United Telephone long distance operation, Fuller said.

Ads and marketing for Sprint's Cal. CLEC operations have been suspended, Krause said, "until such time" as rules for resale and unbundled network elements "become clear" and company considers "economics" to "support mass marketing" of CLEC services. "We are gaining valuable information about customer preferences from about 20,000 residential resale users," he told analysts in conference call. Company continues to operate with existing customer base, he said.

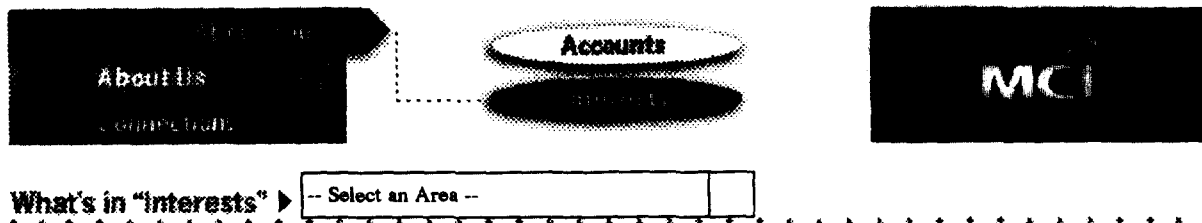
### Ameritech Profits Rise

Ameritech profits increased 18.1% to \$613 million (\$1.12) from \$519 million (94¢) year earlier, but results included \$37 million (7¢) after-tax gain from sale of 12.5% interest in Sky Network TV of New Zealand. Without gain, income rose 11% to \$576 million (\$1.05) and exceeded Wall St. forecasts of \$1.04 per share. Revenue gained 7.6% to \$4.01 billion from \$3.72 billion. Company didn't break out revenues by segment, although it reported increases of 3.3% in access lines to 20.2 million, 11.6% in network access min. of use, 30% in cellular subscribers to 3 million, 34% in paging customers to 1.4 million.

Demand for services "is vigorous," Chmn. Richard Notebaert said, and company has expanded in security monitoring and cable TV to satisfy customers. In cable TV, he said 53 franchises in Ill., Mich. and Ohio have reached communities with 2.2 million residents and are signing up one of every 3 households where service is offered. Security monitoring business also has expanded with acquisition of monitoring assets from Republic Industries and Rollins Inc. SecurityLink has one million customers in 92 U.S. cities, company said. Construction expenses in quarter were \$652 million vs. \$657 million last year, but for year increased to \$1.83 billion from \$1.68 billion.

### COMMUNICATIONS PERSONALS

**Patrick Vien** promoted to pres.-COO, N. American TV... **Lee Lam**, ex-Pacific Star Communications, appointed COO, Millicom International Cellular... **Larry Wasielewski**, ex-Wedgestone Automotive Corp., named pres., Integrated Wireless & Digital Vehicle Aftermarkets Products, new unit of Applied Cellular Technology... **Kevin Brauer** advanced to pres., national integrated services, Sprint, succeeding Wayne Peterson, retired... **Charles Stees**, ex-Lockheed Martin Telecommunications, appointed vp-CFO, Lockheed Martin Intersputnik... **Paul Haggerty**, ex-American Sky Bcstg., becomes exec. vp-CFO, Fox TV... **Ed Ely** promoted to dir., access networks business unit, Siemens Telecom Networks... **Lewis Wilks**, ex-GTE Communications, appointed pres., business markets, Qwest Communications... **Donald Steely**, ex-Alltel Mobile, joins SpectraSite Communications as vp-industry relations; **Thomas Mackiewicz**, ex-SBA Communications, named regional vp-sales; **Donald Anderson**, ex-Nynex, named vp, SpectraSite Development, Tower Construction Div... **Paul Gremaud**, ex-MCI, appointed vp-sales, American Mobile Satellite... **Norman Kwong** promoted to vp-technology, Ortel... **Robert Stengel**, senior vp-programming, MediaOne, resigns at year-end after deciding not to relocate to Denver from Boston (CD Oct 8 p9)... **Patrice Glenn**, ex-Lucent Technologies, appointed dir.-employee communications & corporate affairs, NBC... **Tom Doerr**, news dir., WPLG Miami, elected chmn., ABC Affiliate News Dirs. Advisory Board... Changes at TBS Superstation Research: **Andrew Miller**, ex-KTXH Houston, named project mgr.; **Jane Glasgow** and **Angel Cretegnny** promoted to senior project mgrs... **George Gerbner** named Bell Atlantic Prof. of Telecommunications, Temple U... **Gayle Garrett**, ex-KSWB-TV San Diego, becomes sales mgr., KBHK-TV San Francisco... **Alfredo Duran**, pres.-publisher, *Exito* magazine, appointed vp-managing dir., WYHS-TV Hollywood, Fla., Miami, Nov. 10... **Cornelius Brosnan**, vp-strategic planning, Sprint PCS, appointed to board, American Technology Corp... **Eileen Murphy**, PR dir., *New Yorker*, rejoins ABC as dir.-media relations, ABC News, Oct. 20... FCC Events: Comr. **Ness** addresses Wall St. Journal Technology Summit Oct. 15 (today), Marriott World Trade Center, N.Y., 12:30 p.m.; Commission holds N. American Numbering Council meeting Oct. 21, 1919 M St. NW, Room 856, 8:30 a.m.-4:30 p.m.



## MCI PRESS RELEASE

### "LOCAL PHONE MARKET REMAINS MCI'S NUMBER ONE STRATEGIC OBJECTIVE FOR 1998 AND BEYOND"

01/22/98

Jamie Depeau      FOR IMMEDIATE RELEASE  
MCI  
1-800-644-NEWS

#### LOCAL PHONE MARKET REMAINS MCI'S NUMBER ONE STRATEGIC OBJECTIVE FOR 1998 AND BEYOND

##### MCI WorldCom Merger Best Way To Fulfill Promise Of The Telecom Act

WASHINGTON, DC, January 22, 1998 -- MCI President and Chief Operating Officer Timothy F. Price today announced MCI will focus its resources and investment into the local phone market exclusively through a facilities-based approach.

"We'll go with the only business case that makes economic sense," said Price.

"We'll build facilities to businesses first - then leverage those switches to provide local service to residential customers where it's possible and where local loops are affordable."

In an address to members of the National Press Club discussing the changing telecom climate since the passage of the 1996 Telecommunications Act, Price said, "spending money on resale, or where network elements are overpriced, is not an investment. It's throwing money down a rat hole."

Price added that as long as the current regulatory environment continues, MCI will not offer resale service to any new residential customers. He reaffirmed however that MCI will continue to service its current base of local residential customers.

Price described the MCI WorldCom merger as the best way to fulfill the promise of the Telecommunications Act of 1996 and bring to all Americans choice for their local phone company.

"Our proposed merger with WorldCom is the very best hope for competition in the local market because it increases our speed and ability to bring local competition to business and residential customers," said Price.

Price called for an end to the incumbent monopolies' egregious overpricing of resale and network elements. He said the monopolies have garnered huge profits from local networks bought and paid for by captive local phone customers who have no choice but to enrich local monopolies' coffers.

"The problem isn't that local service is an unprofitable business," said Price. "It's terrifically profitable for the local monopolies who enjoy those 40-plus percent margins. However, they've managed to ensure that the business is not a profitable one for new entrants, who don't have government protected territories, who don't have guaranteed revenue from access charges and can't charge exorbitant one-time fees."

Noting the upcoming second anniversary of the Telecommunications Act, Price emphasized that "the Telecommunications Act can't be successful until new entrants can be successful in local markets."

Price said one of the most important reasons MCI agreed to merge with WorldCom was the ability to expand the company's reach into the local phone market. Upon completion of the MCI WorldCom merger, MCI's local presence will triple -- bringing from 31 to 100 the number of markets the merged company will be facilities-based.

"WorldCom is the ideal partner for a company determined to become the number one competitor in facilities-based local service," concluded Price. "The approval of the MCI WorldCom merger will be the first real step to genuine competition in local markets."

Copies of Price's remarks can be obtained through MCI's News Bureau, 1-800-644-NEWS.

MCI, headquartered in Washington, D.C., offers the industry's most comprehensive portfolio of communication services. With 1996 revenues of \$18.5 billion, MCI ranks as one of the world's largest telecommunications companies. MCI is also the world's second largest carrier of international traffic and operates one of the world's most advanced Internet networks. Since its founding in 1968, MCI

has been a leader in bringing the benefits of long distance competition to businesses and consumers and is now leading the charge to open U.S. local calling markets to competition. On November 10, 1997, MCI announced a definitive merger agreement with WorldCom, Inc. to form a new company called MCI WorldCom.

###



**Copyright 1998, MCI Telecommunications Corporation. All Rights Reserved.** The names, logos, taglines and icons identifying MCI's products and services are proprietary marks of MCI Communications Corporation.



**Teleport Communications Group**

**TCG Contacts:**

Nancy Huson, Investor Relations  
(732) 392-2154

Roger Cawley, Media  
(732) 392-2122

**ACC Corp. Contact:**

Michael R. Daley  
(716) 987-3175

**TELEPORT COMMUNICATIONS GROUP INC.  
COMPLETES THE MERGER WITH ACC CORP.**

**For Immediate Release**

**Dayton, N.J. April 22, 1998**

Teleport Communications Group Inc. ("TCG") (Nasdaq/NM:TCGI) announced the completion of the merger with ACC Corp. ("ACC") (Nasdaq/NM:ACCC) effective today. ACC is a provider of competitive telecommunications services in the United States, Canada and Western Europe with annualized revenues in excess of \$452 million and total assets of over \$328 million.

The merger was a stock-for-stock transaction with an exchange ratio of 0.90909 of a share of TCG stock for one share of ACC stock. The total value of the transaction is approximately \$1.1 billion.

"We are very pleased to have executed this merger on such a timely basis and we welcome ACC to the TCG family," said Bob Annunziata, TCG's Chairman, President, and Chief Executive Officer. "This compelling strategic business combination will significantly strengthen the competitive position of both companies and broaden TCG's presence domestically as well as internationally. The completion of the merger brings TCG's metropolitan statistical service areas (MSAs) to 82 from 65 at year-end 1997. TCG and ACC have made significant progress in integrating our

**WHAT'S NEW**

**ABOUT TCG**

**INVESTOR  
RELATIONS**

**MEDIA**

[The Public Affairs Team](#)

[Current Press Releases](#)

[Press Release Archives](#)

**REGULATORY  
ISSUES**

**PRODUCTS &  
SERVICES**

**AREAS WE  
SERVE**

**CONTACT US**

**CAREER  
OPPORTUNITIES**

**HOME**

teams to ensure a smooth transition, and we expect to continue with our entrepreneurial culture, commitment to our customers and excellent financial performance."

TCG is the nation's first and largest provider of competitive local telecommunications services, selling both fiber optic and broadband wireless facilities to serve information intensive businesses with an array of advanced voice, data, video and Internet services.

This press release contains forward-looking statements that involve risks and uncertainties detailed in the Company's SEC reports and registration statements. Actual results may vary materially.

Copyright ©1997-8 Teleport Communications Group Inc.

**Figure 1**  
**Revenue Reported on TRS Fund Worksheets**  
 (Amounts shown in millions)

	1992	1993	1994	1995	1996
<b>Local Service</b>					
Local Exchange	\$39,235	\$40,176	\$42,245	\$45,194	\$48,717
Local Private Line	1,049	1,088	1,138	1,226	1,616
Cellular, PCS, Paging & Other Mobile	7,285	10,237	14,293	18,759	26,049
Other Local	<u>7,687</u>	<u>8,002</u>	<u>8,302</u>	<u>10,428</u>	<u>10,543</u>
Total Local Service	55,256	59,503	65,977	75,607	86,924
<b>Interstate &amp; Intrastate Access Service</b>	29,353	30,832	32,759	33,911	35,641
<b>Long Distance Service</b>					
Operator (including Pay Telephone & Card)	9,465	10,772	10,539	11,170	10,975
Non-Operator Switched Toll	54,300	58,294	60,819	64,431	71,467
Long Distance Private Line	7,783	8,067	9,043	9,719	10,665
Other Long Distance	<u>4,196</u>	<u>5,392</u>	<u>4,078</u>	<u>4,309</u>	<u>6,583</u>
Total Long Distance	75,744	82,525	84,478	89,629	99,691
<b>Total Reported Revenue</b>	<b>160,353</b>	<b>172,860</b>	<b>183,214</b>	<b>199,147</b>	<b>222,256</b>
<b>Percentage of Revenue Reported as Interstate</b>					
<b>Local Service</b>					
Local Exchange	0.1%	0.1%	0.0%	0.1%	0.1%
Local Private Line	0.1%	0.1%	0.2%	0.4%	6.9%
Cellular, PCS, Paging & Other Mobile	6.2%	6.0%	5.8%	5.8%	5.3%
Other Local	14.9%	14.0%	13.9%	11.2%	11.8%
Total Local Service	2.9%	3.0%	3.0%	3.0%	3.2%
<b>Interstate &amp; Intrastate Access Service</b>	72.3%	72.9%	73.1%	73.2%	73.3%
<b>Long Distance Service</b>					
Operator (including Pay Telephone & Card)	76.2%	65.5%	62.3%	61.6%	58.8%
Non-Operator Switched Toll	59.1%	59.9%	63.2%	64.8%	64.8%
Long Distance Private Line	70.2%	71.4%	73.0%	73.9%	73.1%
Other Long Distance	82.0%	73.2%	74.6%	75.8%	75.2%
Total Long Distance	63.6%	62.6%	64.7%	65.9%	65.7%
<b>Total Reported Revenue</b>	<b>44.3%</b>	<b>43.9%</b>	<b>44.0%</b>	<b>43.3%</b>	<b>42.5%</b>

Note: Some data for prior years have been revised.



10:31AM EDT 5-Sep-97 J.P. Morgan Securities Inc. (FLANNERY, SIMON (1-212) 648  
TELEPORT COMM. GROUP: GAVE UPBEAT PRESENTATION AT JPM CONFERENCE; TRIMMING ESTS

September 5, 1997

J.P. MORGAN SECURITIES INC. - EQUITY RESEARCH

SIMON FLANNERY (1-212) 648-8317  
Marina Yu (1-212) 648-9433

Teleport Communications Group, Inc. (Market Performer)

TELEPORT GAVE UPBEAT PRESENTATION AT JPM HIGH YIELD CONFERENCE; TRIMMING  
ESTIMATES

TCGI 9/4	52-Wk Rge	12/96	Earnings Per Share				FV/EBITDA		Yld	MkCap (\$MM)
			12/97	12/98	3Q/97	3Q/96	12/97E	12/98E		
\$39.00	\$42-21	(\$0.86)A	(1.26)E	(1.70)E	(0.33)E	(0.21)A	194	81	--	6,427
Previous			(1.21)E	(1.65)E	(0.31)E					

Note: 1996 figures are on a pro forma basis.

Teleport's CFO John Scarpati made a presentation at J.P. Morgan's 1997 Global High Yield Conference in New York yesterday, September 4. The upbeat presentation confirmed our view that Teleport is one of the best positioned CLBCs. The content of the presentation focused on the company's many market opportunities in the U.S. telecom industry. Management believes that local switched services will continue to be Teleport's primary source of growth and expects both revenues and EBITDA to continue their rapid expansion. Teleport recently completed its acquisition of Eastern TeleLogic (a Philadelphia-based CLBC) and CERNET (a Tier 1 Internet service provider), and is in the process of finalizing its acquisition of BizTel (a 38 GHz CLBC). Teleport plans to expand its provisioning of Internet services to more cities and is expected to roll out its long distance services in the second half of this year, further fueling growth. However we are lowering our 1997 EPS estimates to \$(1.26) from \$(1.21) and our 1998 EPS estimates to \$(1.70) from \$(1.65) to reflect the dilutive impact of such new service initiatives. In spite of the rosy prospects, we continue to believe that the stock's current valuation fairly reflects the company's strengths and opportunities. We therefore maintain our MARKET PERFORMER rating on the stock. There could be further upside to the current stock price on Teleport's takeout potential.

Notable highlights of the presentation included:

Local switched services continue to be major growth driver - Management expects local switched services to account for about 50% of Teleport's total 1998 revenues, up from the estimated 43% in 1997. To capture this tremendous market opportunity, Teleport has been expanding its geographic coverage, leveraging the use of both fiber and wireless technologies, and using various marketing and distribution channels. The

-- FIRST CALL - ON CALL --

company has been moving "down market" and marketing to small and medium-sized businesses, thereby expanding the size of its addressable market. Also, the bulk of Teleport's 202,000 access lines is on-net, providing superior margins than resale/umbundled loops. We believe that Teleport is well-positioned to capitalize on the many revenue opportunities in the increasingly deregulated local market.

**Launch of long distance services** - Teleport plans to launch service in the second half of this year. Such services will be targeted primarily to small and medium-sized businesses that prefer to purchase integrated telecom services. The introduction of long distance services makes strategic sense since it not only rounds out Teleport's service portfolio and adds a highly complementary product to its current offerings, but also helps to better leverage the company's network assets. Teleport is expected to provide long distance services along its own facilities within regions where its networks are robustly connected. These regions include the NE Corridor, ranging from New Hampshire to Virginia, the regions between Los Angeles and San Diego, and between Milwaukee and Chicago. Other long haul service will be provided on a resale basis.

**Recent acquisitions add new products and services** - The acquisition of Eastern TeleLogic completed Teleport's NE Corridor strategy, allowing Teleport to connect its networks from New Hampshire to Virginia. Teleport also recently added Internet services to its product offerings through its acquisition of San Diego-based CRRFnet. Teleport has launched CRRFnet's Internet services in 18 cities, bringing the total number of cities served to 22. Teleport plans to roll out its Internet services to its other markets. Separately Teleport is in the process of acquiring the remaining 51% of BizTel that it did not already own. The 38 GHz wireless local access technology provides an alternative to fiber for local loop bypass. BizTel currently serves approximately 206 geographic areas. The acquisition should provide Teleport with several advantages: 1) broaden Teleport's network coverage, 2) reduce the dependency on incumbent LECs for local access, 3) increase time to new markets, 4) lower capital requirements than network construction, and 5) provide greater penetration in existing markets.

**Solid financial position continues to support high capex requirements** - Teleport has one of the best financial positions in the sector, giving it significant competitive advantage over its peers. Teleport is the only CLBC with positive EBITDA and an EBITDA level that covers cash interest expense. At the end of 2Q/97, the company had \$470 million of cash on hand and had a combined debt and equity capitalization of \$1,883 million. Teleport also recently increased its bank facility to \$400 million from \$250 million. The bank line was obtained using Teleport's New York operation. The New York operation, which is the company's flagship market, is currently positive in EBITDA, operating income, and earnings, and is expected to turn free cash flow positive by the end of 1997. The New York operation accounted for about 35% of Teleport's total revenues in 2Q/97, down from 52% in 2Q/96. The lower percentage reflects the increasingly diverse geographic coverage of the company. Such a solid financial position supports the company's aggressive capex plans. Management reiterated that capital spending would be about \$500 million in 1997 and \$500-600 million in 1998. Roughly 60% of these amounts would be success-based, with the remaining 40% deployed in the expansion of both

-- FIRST CALL - ON CALL --

switched and Internet services. The company is expected to add five switches to its existing 30 by the end of the year and to add about 1,000 route miles of fiber per year. In addition, Teleport plans to add eight to 10 markets each year to its existing 65 markets. Management hopes to increase coverage to a total of about 100 markets.

First Call Corporation - all rights reserved. 617/345-2500

-> End of Note <-

-- FIRST CALL - ON CALL --

## DEPARTMENT OF JUSTICE

## Antitrust Division

## FEDERAL TRADE COMMISSION

## 1992 Horizontal Merger Guidelines

**AGENCIES:** Department of Justice Antitrust Division, and Federal Trade Commission.

**ACTION:** Notice.

**SUMMARY:** This notice announces the joint release by the Department and the Commission of the 1992 Horizontal Merger Guidelines, updating Guidelines issued by the Department on June 14, 1984 (published in the Federal Register June 29, 1984 (49 FR 26823)) and the Commission's 1982 Statement Concerning Horizontal Mergers (reprinted in 4 Trade Reg. Rep. (CCH) ¶13,200). The Guidelines have been revised to clarify the Agencies' enforcement policy concerning horizontal mergers and acquisitions subject to section 7 of the Clayton Act, section 1 of the Sherman Act, or section 5 of the Federal Trade Commission Act. The Guidelines describe the analytical process that the Department and the Commission will use in determining whether to challenge a horizontal merger or acquisition. Publication of the Guidelines is intended to assist businesses in complying with the applicable antitrust laws.

**DATE:** Issued April 2, 1992.

**ADDRESSES:** Department of Justice, 10th & Constitution Avenue, NW., Washington, DC 20530; Federal Trade Commission, Sixth & Pennsylvania Avenue, NW., Washington, DC 20580.

Dated: September 1, 1992.

Charles A. James,  
Acting Assistant Attorney General,  
Department of Justice.

Janet D. Steiger,  
Federal Trade Commission.

**U.S. Department of Justice and Federal Trade Commission Statement Accompanying Release of Revised Merger Guidelines**

April 2, 1992

The U.S. Department of Justice ("Department") and Federal Trade Commission ("Commission") today jointly issued Horizontal Merger Guidelines revising the Department's 1984 Merger Guidelines and the Commission's 1982 Statement Concerning Horizontal Merger Guidelines. The release marks the first time that the two Federal agencies that

share antitrust enforcement jurisdiction have issued joint guidelines.

Central to the 1992 Department of Justice and Federal Trade Commission Horizontal Merger Guidelines is a recognition that sound merger enforcement is an essential component of our free enterprise system benefitting the competitiveness of American firms and the welfare of American consumers. Sound merger enforcement must prevent anticompetitive mergers yet avoid deterring the larger universe of procompetitive or competitively neutral mergers. The 1992 Horizontal Merger Guidelines implement this objective by describing the analytical foundations of merger enforcement and providing guidance enabling the business community to avoid antitrust problems when planning mergers.

The Department first released Merger Guidelines in 1968 in order to inform the business community of the analysis applied by the Department to mergers under the Federal antitrust laws. The 1968 Merger Guidelines eventually fell into disuse, both internally and externally, as they were eclipsed by developments in legal and economic thinking about mergers.

In 1982, the Department released revised Merger Guidelines which, reflecting those developments, departed dramatically from the 1968 version. Relative to the Department's actual practice, however, the 1982 Merger Guidelines represented an evolutionary not revolutionary change. On the same date, the Commission released its Statement Concerning Horizontal Mergers highlighting the principal considerations guiding the Commission's horizontal merger enforcement and noting the "considerable weight" given by the Commission to the Department's 1982 Merger Guidelines.

The Department's current Merger Guidelines, released in 1984, refined and clarified the analytical framework of the 1982 Merger Guidelines. Although the agencies' experience with the 1982 Merger Guidelines reaffirmed the soundness of its underlying principles, the Department concluded that there remained room for improvement.

The revisions embodied in the 1992 Horizontal Merger Guidelines reflect the next logical step in the development of the agencies' analysis of mergers. They reflect the Department's experience in applying the 1982 and 1984 Merger Guidelines as well as the Commission's experience in applying those Guidelines and the Commission's 1982 Statement. Both the Department and the Commission believed that their respective Guidelines and Statement

presented sound frameworks for antitrust analysis of mergers, but that improvements could be made to reflect advances in legal and economic thinking. The 1992 Horizontal Merger Guidelines accomplish this objective and also clarify certain aspects of the Merger Guidelines that proved to be ambiguous or were interpreted by observers in ways that were inconsistent with the actual policy of the agencies.

The 1992 Horizontal Merger Guidelines do not include a discussion of horizontal effects from non-horizontal mergers (e.g., elimination of specific potential entrants and competitive problems from vertical mergers). Neither agency has changed its policy with respect to non-horizontal mergers. Specific guidance on non-horizontal mergers is provided in section 4 of the Department's 1984 Merger Guidelines, read in the context of today's revisions to the treatment of horizontal mergers.

A number of today's revisions are largely technical or stylistic. One major objective of the revisions is to strengthen the document as an analytical road map for the evaluation of mergers. The language, therefore, is intended to be burden-neutral, without altering the burdens of proof or burden of coming forward as those standards have been established by the courts. In addition, the revisions principally address two areas.

The most significant revision to the Merger Guidelines is to explain more clearly how mergers may lead to adverse competitive effects and how particular market factors relate to the analysis of those effects. These revisions are found in section 2 of the Horizontal Merger Guidelines. The second principal revision is to sharpen the distinction between the treatment of various types of supply responses and articulate the framework for analyzing the timeliness, likelihood and sufficiency of entry. These revisions are found in sections 1.3 and 3.

The new Horizontal Merger Guidelines observe, as did the 1984 Guidelines, that because the specific standards they set out must be applied in widely varied factual circumstances, mechanical application of those standards could produce misleading results. Thus, the Guidelines state that the agencies will apply those standards reasonably and flexibly to the particular facts and circumstances of each proposed merger.

# Department of Justice and Federal Trade Commission Horizontal Merger Guidelines

1992

## TABLE OF CONTENTS

1. Purpose, Underlying Policy Assumptions, and Overview	1
2. Purpose and Underlying Policy Assumptions of the Guidelines	2
3. Overview	3
4. Market Definition, Measurement and Concentration	4
5. Overview	5
6. Product Market Definition	6
7. Geographic Market Definition	7
8. Identification of Firms that Participate in the Relevant Market	8
9. Calculating Market Shares	9
10. Concentration and Market Shares	10
11. The Potential Adverse Competitive Effects of Mergers	11
12. Overview	12
13. Lessening of Competition Through Coordinated Interaction	13
14. Lessening of Competition Through Unilateral Effects	14
15. Entry Analysis	15
16. Overview	16
17. Entry Alternatives	17
18. Timeliness of Entry	18
19. Likelihood of Entry	19
20. Sufficiency of Entry	20
21. Efficiencies	21
22. Failure and Existing Assets	22
23. Overview	23
24. Failing Firm	24
25. Failing Division	25

## Purpose, Underlying Policy Assumptions and Overview

These Guidelines outline the present enforcement policy of the Department of Justice and the Federal Trade Commission (the "Agency") concerning horizontal acquisition and mergers ("mergers") subject to section 7 of the Clayton Act,<sup>1</sup> to section 1 of the Sherman Act<sup>2</sup>, or to section 5 of the FTC Act.<sup>3</sup> They describe the analytical framework and specific standards normally used by the Agency in analyzing mergers.<sup>4</sup> By stating its policy

as simply and clearly as possible, the Agency hopes to reduce the uncertainty associated with enforcement of the antitrust laws in this area.

Although the Guidelines should improve the predictability of the Agency's merger enforcement policy, it is not possible to remove the exercise of judgment from the evaluation of mergers under the antitrust laws. Because the specific standards set forth in the Guidelines must be applied to a broad range of possible factual circumstances, mechanical application of those standards may provide misleading answers to the economic questions raised under the antitrust laws. Moreover, information is often incomplete and the picture of competitive conditions that develops from historical evidence may provide an incomplete answer to the forward-looking inquiry of the Guidelines. Therefore, the Agency will apply the standards of the Guidelines reasonably and flexibly to the particular facts and circumstances of each proposed merger.

### 0.1 Purpose and Underlying Policy Assumptions of the Guidelines

The Guidelines are designed primarily to articulate the analytical framework the Agency applies in determining whether a merger is likely substantially to lessen competition, not to describe how the Agency will conduct the litigation of cases that it decides to bring. Although relevant in the latter context, the factors contemplated in the Guidelines neither dictate nor exhaust the range of evidence that the Agency must or may introduce in litigation. Consistent with their objective, the Guidelines do not attempt to assign the burden of proof, or the burden of coming forward with evidence, on any particular issue. Nor do the Guidelines attempt to adjust or reapportion burdens of proof or burdens of coming forward as those standards have been established by the courts.<sup>5</sup> Instead, the Guidelines set forth a methodology for analyzing issues once the necessary facts are available. The necessary facts may be derived from the documents and statements of both the merging firms and other sources.

Throughout the Guidelines, the analysis is focused on whether consumers or producers "likely would" take certain actions, that is, whether the action is in the actor's economic interest. References to the profitability of certain actions focus on economic profits rather than accounting profits.

<sup>5</sup> For example, the burden with respect to efficiency and failure continues to reside with the proponents of the merger.

Economic profits may be defined as the excess of revenues over costs where costs include the opportunity cost of invested capital.

Mergers are motivated by the prospect of financial gains. The possible sources of the financial gains from mergers are many, and the Guidelines do not attempt to identify all possible sources of gain in every merger. Instead, the Guidelines focus on the one potential source of gain that is of concern under the antitrust laws: market power.

The unifying theme of the Guidelines is that mergers should not be permitted to create or enhance market power or to facilitate its exercise. Market power to a seller is the ability profitably to maintain prices above competitive levels for a significant period of time.<sup>6</sup> In some circumstances, a sole seller (a "monopolist") of a product with no good substitutes can maintain a selling price that is above the level that would prevail if the market were competitive. Similarly, in some circumstances, where only a few firms account for most of the sales of a product, those firms can exercise market power, perhaps even approximating the performance of a monopolist, by either explicitly or implicitly coordinating their actions. Circumstances also may permit a single firm, not a monopolist, to exercise market power through unilateral or non-coordinated conduct—conduct the success of which does not rely on the concurrence of other firms in the market or on coordinated responses by those firms. In any case, the result of the exercise of market power is a transfer of wealth from buyers to sellers or a misallocation of resources.

Market power also encompasses the ability of a single buyer (a "monopsonist"), a coordinating group of buyers, or a single buyer, not a monopsonist, to depress the price paid for a product to a level that is below the competitive price and thereby depress output. The exercise of market power by buyers ("monopsony power") has adverse effects comparable to those associated with the exercise of market power by sellers. In order to assess potential monopsony concerns, the Agency will apply an analytical framework analogous to the framework of these Guidelines.

While challenging competitively harmful mergers, the Agency seeks to avoid unnecessary interference with the larger universe of mergers that are either competitively beneficial or neutral. In

<sup>6</sup> Sellers with market power also may lessen competition on dimensions other than price, such as product quality, service, or innovation.

implementing this objective, however, the Guidelines reflect the congressional intent that merger enforcement should interdict competitive problems in their incipency.

## 0.2 Overview

The Guidelines describe the analytical process that the Agency will employ in determining whether to challenge a horizontal merger. First, the Agency assesses whether the merger would significantly increase concentration and result in a concentrated market, properly defined and measured. Second, the Agency assesses whether the merger, in light of market concentration and other factors that characterize the market, raises concern about potential adverse competitive effects. Third, the Agency assesses whether entry would be timely, likely and sufficient either to deter or to counteract the competitive effects of concern. Fourth, the Agency assesses any efficiency gains that reasonably cannot be achieved by the parties through other means. Finally the Agency assesses whether, but for the merger, either party to the transaction would be likely to fail, causing its assets to exit the market. The process of assessing market concentration, potential adverse competitive effects, entry, efficiency and failure is a tool that allows the Agency to answer the ultimate inquiry in merger analysis: whether the merger is likely to create or enhance market power or to facilitate its exercise.

## 1. Market Definition, Measurement and Concentration

### 1.0 Overview

A merger is unlikely to create or enhance market power or to facilitate its exercise unless it significantly increases concentration and results in a concentrated market, properly defined and measured. Mergers that either do not significantly increase concentration or do not result in a concentrated market ordinarily require no further analysis.

The analytic process described in this section ensures that the Agency evaluates the likely competitive impact of a merger within the context of economically meaningful markets—i.e., markets that could be subject to the exercise of market power. Accordingly, for each product or service (hereafter “product”) of each merger firm, the Agency seeks to define a market in which firms could effectively exercise market power if they were able to coordinate their actions.

Market definition focuses solely on demand substitution factors.

possible consumer responses. Supply substitution factors—i.e., possible production responses—are considered elsewhere in the Guidelines in the identification of firms that participate in the relevant market and the analysis of entry. See sections 1.3 and 3. A market is defined as a product or group of products and a geographic area in which it is produced or sold such that a hypothetical profit-maximizing firm, not subject to price regulation, that was the only present and future producer or seller of those products in that area likely would impose at least a “small but significant and nontransitory” increase in price, assuming the terms of sale of all other products are held constant. A relevant market is a group of products and a geographic area that is no bigger than necessary to satisfy this test. The “small but significant and nontransitory” increase in price is employed solely as a methodological tool for the analysis of mergers: it is not a tolerance level for price increases.

Absent price discrimination, a relevant market is described by a product or group of products and a geographic area. In determining whether a hypothetical monopolist would be in a position to exercise market power, it is necessary to evaluate the likely demand responses of consumers to a price increase. A price increase could be made unprofitable by consumers either switching to other products or switching to the same product produced by firms at other locations. The nature and magnitude of these two types of demand responses respectively determine the scope of the product market and the geographic market.

In contrast, where a hypothetical monopolist likely would discriminate in prices charged to different groups of buyers, distinguished, for example, by their uses or locations, the Agency may delineate different relevant markets corresponding to each such buyer group. Competition for sales to each such group may be affected differently by a particular merger and markets are delineated by evaluating the demand response of each such buyer group. A relevant market of this kind is described by a collection of products for sale to a given group of buyers.

Once defined, a relevant market must be measured in terms of its participants and concentration. Participants include firms currently producing or selling the market's products in the market's geographic area. In addition, participants may include other firms depending on their likely supply responses to a “small but significant and nontransitory” price increase. A firm is

a “small but significant and nontransitory” price increase, it likely would enter rapidly into production or sale of a market product in the market's area, without incurring significant sunk costs of entry and exit. Firms likely to make any of these supply responses are considered to be “uncommitted” entrants because their supply response would create new production or sale in the relevant market and because that production or sale could be quickly terminated without significant loss.<sup>7</sup> Uncommitted entrants are capable of making such quick and uncommitted supply responses that they likely influenced the market premerger, would influence it post-merger, and accordingly are considered as market participants at both times. This analysis of market definition and market measurement applies equally to foreign and domestic firms.

If the process of market definition and market measurement identifies one or more relevant markets in which the merging firms are both participants, then the merger is considered to be horizontal. Sections 1.1 through 1.5 describe in greater detail how product and geographic markets will be defined, how market shares will be calculated and how market concentration will be assessed.

### 1.1 Product Market Definition

The Agency will first define the relevant product market with respect to each of the products of each of the merging firms.<sup>8</sup>

#### 1.11 General Standards

Absent price discrimination, the Agency will delineate the product market to be a product or group of products such that a hypothetical profit-maximizing firm that was the only present and future seller of those products (“monopolist”) likely would impose at least a “small but significant and nontransitory” increase in price. That is, assuming that buyers likely

<sup>7</sup> Probable supply responses that require the entrant to incur significant sunk costs of entry and exit are not part of market measurement, but are included in the analysis of the significance of entry. See Section 3. Entrants that must commit substantial sunk costs are regarded as “committed” entrants because those sunk costs make entry irreversible in the short term without foregoing the investment; thus the likelihood of their entry must be evaluated with regard to their long-term profitability.

<sup>8</sup> Although discussed separately, product market definition and geographic market definition are interrelated. In particular, the extent to which buyers of a particular product would shift to other products in the event of a “small but significant and nontransitory” increase in price must be evaluated



respond to an increase in price of a tentatively identified product group by shifting to other products, what would happen? If the alternatives were, in the aggregate, sufficiently attractive at their existing terms of sale, an attempt to raise prices would result in a reduction of sales large enough that the price increase would not prove profitable, and the tentatively identified product group would prove to be too narrow. If not, the Agency will begin with each product (narrowly defined) and ask what would happen if a hypothetical monopolist of that product raised at least a "small but significant and nontransitory" increase in price, but the terms of sale of all other products remained constant. If, in response to the price increase, the reduction in sales of the product would be large enough that a hypothetical monopolist would not find it profitable to impose such an increase in price, then the Agency will add to the product group the product that is the next-best substitute for the merging firm's product.<sup>9</sup> In considering the likely reaction of buyers to a price increase, the Agency will take into account all relevant evidence, including, but not limited to, the following:

- (1) Evidence that buyers have shifted or have considered shifting purchases between products in response to relative changes in price or other competitive variables;
- (2) Evidence that sellers base business decisions on the prospect of buyer substitution between products in response to relative changes in price or other competitive variables;
- (3) The influence of downstream competition faced by buyers in their input markets; and
- (4) The timing and costs of switching products.

The price increase question is then asked for a hypothetical monopolist controlling the expanded product group. By performing successive iterations of the price increase test, the hypothetical monopolist will be assumed to pursue maximum profits in deciding whether to raise the prices of any or all of the additional products under its control. The process will continue until a group of products is identified such that a hypothetical monopolist over that group of products would profitably impose at

least a "small but significant and nontransitory" increase, including the price of a product of one of the merging firms. The Agency generally will consider the relevant product market to be the smallest group of products that satisfies this test.

In the above analysis, the Agency will use prevailing prices of the products of the merging firms and possible substitutes for such products, unless premerger circumstances are strongly suggestive of coordinated interaction, in which case the Agency will use a price more reflective of the competitive price.<sup>10</sup> However, the Agency may use likely future prices, absent the merger, when changes in the prevailing prices can be predicted with reasonable reliability. Changes in price may be predicted on the basis of, for example, changes in regulation which affect price either directly or indirectly by affecting costs or demand.

In general, the price for which an increase will be postulated will be whatever is considered to be the price of the product at the stage of the industry being examined.<sup>11</sup> In attempting to determine objectively the effect of a "small but significant and nontransitory" increase in price, the Agency, in most contexts, will use a price increase of five percent lasting for the foreseeable future. However, what constitutes a "small but significant and nontransitory" increase in price will depend on the nature of the industry, and the Agency at times may use a price increase that is larger or smaller than five percent.

#### 1.12 Product Market Definition in the Presence of Price Discrimination

The analysis of product market definition to this point has assumed that price discrimination—charging different buyers different prices for the same product, for example—would not be profitable for a hypothetical monopolist. A different analysis applies where price discrimination would be profitable for a hypothetical monopolist.

Existing buyers sometimes will differ significantly in their likelihood of switching to other products in response to a "small but significant and nontransitory" price increase. If a

hypothetical monopolist can identify and price differently to those buyers ("targeted buyers") who would not defeat the targeted price increase by substituting to other products in response to a "small but significant and nontransitory" price increase for the relevant product, and if other buyers likely would not purchase the relevant product and resell to targeted buyers, then a hypothetical monopolist would profitably impose a discriminatory price increase on sales to targeted buyers. This is true regardless of whether a general increase in price would cause such significant substitution that the price increase would not be profitable. The Agency will consider additional relevant product markets consisting of a particular use or uses by groups of buyers of the product for which a hypothetical monopolist would profitably and separately impose at least a "small but significant and nontransitory" increase in price.

#### 1.2 Geographic Market Definition

For each product market in which both merging firms participate, the Agency will determine the geographic market or markets in which the firms produce or sell. A single firm may operate in a number of different geographic markets.

##### 1.21 General Standards

Absent price discrimination, the Agency will delineate the geographic market to be a region such that a hypothetical monopolist that was the only present or future producer of the relevant product at locations in that region would profitably impose at least a "small but significant and nontransitory" increase in price, holding constant the terms of sale for all products produced elsewhere. That is, assuming that buyers likely would respond to a price increase on products produced within the tentatively identified region only by shifting to products produced at locations of production outside the region, what would happen? If those locations of production outside the region were, in the aggregate, sufficiently attractive at their existing terms of sale, an attempt to raise price would result in a reduction in sales large enough that the price increase would not prove profitable, and the tentatively identified geographic area would prove to be too narrow.

In defining the geographic market or markets affected by a merger, the Agency will begin with the location of each merging firm (or each plant of a multiplant firm) and ask what would happen if a hypothetical monopolist of

<sup>9</sup> Throughout the Guidelines, the term "next best substitute" refers to the alternative which, if available in unlimited quantities at constant prices, would account for the greatest value of diversion of demand in response to a "small but significant and nontransitory" price increase.

<sup>10</sup> The terms of sale of all other products are held constant in order to focus market definition on the behavior of consumers. Movements in the terms of sale for other products, as may result from the behavior of producers of those products, are accounted for in the analysis of competitive effects and entry. See Sections 2 and 3.

<sup>11</sup> For example, in a merger between retailers, the relevant price would be the retail price of a product to consumers. In the case of a merger among oil pipelines, the relevant price would be the tariff—the price of the transportation service.

the relevant product at that point imposed at least a "small but significant and nontransitory" increase in price, but the terms of sale at all other locations remained constant. If, in response to the price increase, the reduction in sales of the product at that location would be large enough that a hypothetical monopolist producing or selling the relevant product at the merging firm's location would not find it profitable to impose such an increase in price, then the Agency will add the location from which production is the next-best substitute for production at the merging firm's location.

In considering the likely reaction of buyers to a price increase, the Agency will take into account all relevant evidence, including, but not limited to, the following:

- (1) Evidence that buyers have shifted or have considered shifting to relative changes in price or other competitive variables;
- (2) Evidence that sellers base business decisions on the prospect of buyer substitution between geographic locations in response to relative changes in price or other competitive variables;
- (3) The influence of downstream competition faced by buyers in their output markets; and
- (4) The timing and costs of switching suppliers.

The price increase question is then asked for a hypothetical monopolist controlling the expanded group of locations. In performing successive iterations of the price increase test, the hypothetical monopolist will be assumed to pursue maximum profits in deciding whether to raise the price at any or all of the additional locations under its control. This process will continue until a group of locations is identified such that a hypothetical monopolist over that group of locations would profitably impose at least a "small but significant and nontransitory" increase, including the price charged at a location of one of the merging firms.

The "smallest market" principle will be applied as it is in product market definition. The price for which an increase will be postulated, what constitutes a "small but significant and nontransitory" increase in price, and the substitution decisions of consumers all will be determined in the same way in which they are determined in product market definition.

#### 1.22 Geographic Market Definition in the Presence of Price Discrimination

The analysis of geographic market definition to this point has assumed that geographic price discrimination—

charging different prices net of transportation costs for the same product to buyers in different areas, for example—would not be profitable for a hypothetical monopolist. However, if a hypothetical monopolist can identify and price differently to buyers in certain areas ("targeted buyers") who would not defeat the targeted price increase by substituting to more distant sellers in response to a "small but significant and nontransitory" price increase for the relevant product, and if other buyers likely would not purchase the relevant product and resell to targeted buyers,<sup>12</sup> then a hypothetical monopolist would profitably impose a discriminatory price increase. This is true even where a general price increase would cause such significant substitution that the price increase would not be profitable. The Agency will consider additional geographic markets consisting of particular locations of buyers for which a hypothetical monopolist would profitably and separately impose at least a "small but significant and nontransitory" increase in price.

#### 1.3 Identification of Firms that Participate in the Relevant Market

##### 1.31 Current Producers or Sellers

The Agency's identification of firms that participate in the relevant market begins with all firms that currently produce or sell in the relevant market. This includes vertically integrated firms to the extent that such inclusion accurately reflects their competitive significance in the relevant market prior to the merger. To the extent that the analysis under Section 1.1 indicates that used, reconditioned or recycled goods are included in the relevant market, market participants will include firms that produce or sell such goods and that likely would offer those goods in competition with other relevant products.

##### 1.32 Firms That Participate Through Supply Response

In addition, the Agency will identify other firms not currently producing or selling the relevant product in the relevant area as participating in the relevant market if their inclusion would more accurately reflect probable supply responses. These firms are termed "uncommitted entrants." These supply responses must be likely to occur within one year and without the expenditure of significant sunk costs of entry and exit.

<sup>12</sup> This arbitrage is inherently impossible for many services and is particularly difficult where the product is sold in a delivered form and where transportation costs are a significant percentage of the final cost.

in response to a "small but significant and nontransitory" price increase. If a firm has the technological capability to achieve such an uncommitted supply response, but likely would not (e.g., because difficulties in achieving product acceptance, distribution, or production would render such a response unprofitable), that firm will not be considered to be a market participant. The competitive significance of supply responses that require more time or that require firms to incur significant sunk costs of entry and exit will be considered in entry analysis. See section 3.13

Sunk costs are the acquisition costs of tangible and intangible assets that cannot be recovered through the redeployment of these assets outside the relevant market, i.e., costs uniquely incurred to supply the relevant product and geographic market. Examples of sunk costs may include market-specific investments in production facilities, technologies, marketing (including product acceptance), research and development, regulatory approvals, and testing. A significant sunk cost is one which would not be recouped within one year of the commencement of the supply response, assuming a "small but significant and nontransitory" price increase in the relevant market. In this context, a "small but significant and nontransitory" price increase will be determined in the same way in which it is determined in product market definition, except the price increase will be assumed to last one year. In some instances, it may be difficult to calculate sunk costs with precision. Accordingly, when necessary, the Agency will make an overall assessment of the extent of sunk costs for firms likely to participate through supply responses.

These supply responses may give rise to new production of products in the relevant product market or new sources of supply in the relevant geographic market. Alternatively, where price discrimination is likely so that the relevant market is defined in terms of targeted group of buyers, these supply responses serve to identify new sellers to the targeted buyers. Uncommitted supply responses may occur in several different ways: by the establishing or extension of existing assets to production or sale in the relevant market; or by the construction of

<sup>13</sup> If uncommitted entrants likely would remain in the market and would meet the entry of time-based, market-based, and technology-based, and would likely enter within one year of the merger or acquisition, the Agency will consider the impact of these firms in the entry analysis.



production or sale in the relevant market.

### 1.321 Production Substitution and Extension: The Switching or Extension of Existing Assets to Production or Sale in the Relevant Market

The productive and distributive assets of a firm sometimes can be used to produce and sell either the relevant products or products that buyers do not regard as good substitutes. Production substitution refers to the shift by a firm in the use of assets from producing and selling one product to producing and selling another. Production extension refers to the use of those assets, for example, existing brand names and reputation, both for their current production and for production of the relevant product. Depending upon the speed of that shift and the extent of sunk costs incurred in the shift or extension, the potential for production substitution or extension may necessitate treating as market participants firms that do not currently produce the relevant product.<sup>14</sup>

If a firm has existing assets that likely would be shifted or extended into production and sale of the relevant product within one year, and without incurring significant sunk costs of entry and exit, in response to a "small but significant and nontransitory" increase in price for only the relevant product, the Agency will treat that firm as a market participant. In assessing whether a firm is such a market participant, the Agency will take into account the costs of substitution or extension relative to the profitability of sales at the elevated price, and whether the firm's capacity is elsewhere committed or elsewhere so profitably employed that such capacity likely would not be available to respond to an increase in price in the market.

### 1.322 Obtaining New Assets for Production or Sale of the Relevant Product

A firm may also be able to enter into production or sale in the relevant market within one year and without the

expenditure of significant sunk costs of entry and exit, in response to a "small but significant and nontransitory" increase in price for only the relevant product, even if the firm is newly organized or is an existing firm without products or productive assets closely related to the relevant market. If new firms, or existing firms without closely related products or productive assets, likely would enter into production or sale in the relevant market within one year without the expenditure of significant sunk costs of entry and exit, the Agency will treat those firms as market participants.

## 1.4 Calculating Market Shares

### 1.41 General Approach

The Agency normally will calculate market shares for all firms (or plants) identified as market participants in Section 1.3 based on the total sales or capacity currently devoted to the relevant market together with that which likely would be devoted to the relevant market in response to a "small but significant and nontransitory" price increase. Market shares can be expressed either in dollar terms through measurement of sales, shipments, or production, or in physical terms through measurement of sales, shipments, production, capacity, or reserves.

Market shares will be calculated using the best indicator of firms' future competitive significance. Dollar sales or shipments generally will be used if firms are distinguished primarily by differentiation of their products. Unit sales generally will be used if firms are distinguished primarily on the basis of their relative advantages in serving different buyers or groups of buyers. Physical capacity or reserves generally will be used if it is these measures that most effectively distinguish firms.<sup>15</sup> Typically, annual data are used, but where individual sales are large and infrequent so that annual data may be unrepresentative, the Agency may measure market shares over a longer period of time.

In measuring a firm's market share, the Agency will not include its sales or capacity to the extent that the firm's capacity is committed or so profitably employed outside the relevant market that it would not be available to respond to an increase in price in the market.

### 1.42 Price Discrimination Markets

When markets are defined on the basis of price discrimination (Sections

1.12 and 1.22), the Agency will include only sales likely to be made into, or capacity likely to be used to supply, the relevant market in response to a "small but significant and nontransitory" price increase.

### 1.43 Special Factors Affecting Foreign Firms

Market shares will be assigned to foreign competitors in the same way in which they are assigned to domestic competitors. However, if exchange rates fluctuate significantly, so that comparable dollar calculations on an annual basis may be unrepresentative, the Agency may measure market shares over a period longer than one year.

If shipments from a particular country to the United States are subject to a quota, the market shares assigned to firms in that country will not exceed the amount of shipments by such firms allowed under the quota.<sup>16</sup> In the case of restraints that limit imports to some percentage of the total amount of the product sold in the United States (*i.e.*, percentage quotas), a domestic price increase that reduced domestic consumption also would reduce the volume of imports into the United States. Accordingly, actual import sales and capacity data will be reduced for purposes of calculating market shares. Finally, a single market share may be assigned to a country or group of countries if firms in that country or group of countries act in coordination.

## 1.5 Concentration and Market Shares

Market concentration is a function of the number of firms in a market and their respective market shares. As an aid to the interpretation of market data, the Agency will use the Herfindahl-Hirschman Index ("HHI") of market concentration. The HHI is calculated by summing the squares of the individual market shares of all the participants.<sup>17</sup> Unlike the four-firm concentration ratio, the HHI reflects both the distribution of the market shares of the top four firms and the composition of the market outside the top four firms. It also gives proportionately greater weight to the

<sup>14</sup> The constraining effect of the quota on the importer's ability to expand sales is relevant to the evaluation of potential adverse competitive effects. See Section 2.

<sup>17</sup> For example, a market consisting of four firms with market shares of 30 percent, 30 percent, 20 percent and 20 percent has an HHI of 2600 ( $30^2 + 30^2 + 20^2 + 20^2 = 2600$ ). The HHI ranges from 10,000 (in the case of a pure monopoly) to a number approaching zero (in the case of an atomistic market). Although it is desirable to include all firms in the calculation, lack of information about small firms is not critical because such firms do not affect the HHI significantly.

<sup>15</sup> Where all firms have, on a forward-looking basis, an equal likelihood of securing sales, the Agency will assign firms equal shares.

<sup>14</sup> Under other analytical approaches, production substitution sometimes has been reflected in the description of the product market. For example, the product market for stamped metal products such as automobile hub caps might be described as "light metal stamping," a production process rather than a product. The Agency believes that the approach described in the text provides a more clearly focused method of incorporating this factor in merger analysis. If production substitution among a group of products is nearly universal among the firms selling one or more of those products, however, the Agency may use an aggregate description of those markets as a matter of convenience.